

BEAVER COUNTY RETIREMENT SYSTEM



Investment Review Third Quarter 2008

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➤ "What We've Learned from a Painful Nine Months"	
– <i>Wall Street Journal, September 30, 2008</i>	



CIM INVESTMENT MANAGEMENT, INC.

Investment Building, 239 Fourth Ave., Suite 1302, Pittsburgh, PA 15222

Beaver County Retirement System
County Courthouse
810 Third Street
Beaver, PA 15009

November 19, 2008

Dear Members of the Board:

In these truly unprecedented times, CIM continues to believe that a well thought out investment plan that emphasizes diversification and long-term results will, in the long run, produce reasonable investment returns. Therefore, we continue to adhere to our basic principles – risk control, diversification and emphasis on high quality securities.

The third quarter witnessed a serious decline in almost all asset classes as the bursting of the U.S. housing bubble precipitated a global financial crisis which has now spread to Main Street from Wall Street. The S&P 500 Stock Index lost 8.37% and the Small Cap S&P 600 Stock Index was down 0.86% during the quarter. Furthermore, although interest rates fell, bond indices experienced negative returns as corporate bonds performed poorly during the quarter.

The Federal government is now taking extreme measures to deal with the fallout from this crisis including steps to buy non-performing assets from banks and other financial intermediaries. We believe that these and other measures will ultimately be successful and that financial markets will eventually recognize that many assets have become undervalued. We will continue to monitor the situation very closely and will make adjustments to our thinking when appropriate and prudent in the best interest of our client's portfolios.

Yours very truly,

CIM INVESTMENT MANAGEMENT, INC.

Andrew C. Fisher
President

3rd Quarter Recap and Outlook – June 30, 2008 to September 30, 2008

Recap

Although the U.S. economy has not officially entered a recession, there are significant indications that a recession is imminent. The unemployment rate has risen to 6.1% from 5.0% at the beginning of the year. Retail sales have dropped two months in a row and the markets have reacted predictably to this dismal set of economic data. The S&P 500 index is down 22.9% YTD and 10 year US Treasury note yields have fallen to 3.82% from 4.02% at the start of 2008. With respect to fixed income, the Lehman Brothers Gov Credit Index returned (.67%) in 2008, as corporate bonds have performed very poorly this year. Investment-grade corporate bonds are headed for their worst month since February 1980 with a loss of about 7.75% in September. In short, both with respect to stocks and bonds, there has been a tremendous flight to quality this year and particularly over the last two months.

In addition to a deteriorating economic backdrop, the U.S. is experiencing an unprecedented credit crisis precipitated by a surge in defaults on residential mortgages. A large number of financial institutions continue to own staggering amounts of securities backed by these loans. The fall out from this crisis has been nothing short of catastrophic on the global financial industry, as several large banks have either gone out of business or been absorbed by larger organizations. The list of those institutions that no longer exist includes Bear Stearns, Lehman Brothers, Merrill Lynch, Wachovia and Washington Mutual. In addition, the U.S. government essentially nationalized Fannie Mae and Freddie Mac and bailed out AIG.

To date, the federal government has reacted to this turmoil with a set of policy actions meant to stabilize money market rates and to support large institutions. Among other actions, the Federal Reserve made available billions of dollars of additional funds through various mechanisms and the treasury has facilitated the sale of Bear Stearns and Wachovia. Congress has passed a \$700 billion package known as the Troubled Asset Relief Program (TARP). The purpose of this program is to get failed loans off of bank balance sheets and thereby facilitate new bank lending.

Outlook

Our economic analysis suggests that the U.S. will experience a recession with the unemployment rate peaking at or near 7.0%. However, given that the Fed funds rate is historically extremely low and that the government passed the TARP legislation, we believe that the economy will likely trough sometime during the next six to nine months. We envision that GDP growth will average about 1.5% next year although growth is likely to be backend loaded.

In terms of the stock market, our analysis suggests that the S&P 500 fair value for next year is 1300-1350 based on a top down estimate of \$90/Share and a multiple of about 15. Given the current trading range of 1100-1200, the market seems to be undervalued by 10%-15%. This analysis does not suggest that further near-term downside is not possible but rather that over an intermediate time horizon the stock market seems undervalued.

Performance within the fixed income markets have been highly skewed toward high quality and longer maturities. In particular, long-term treasury securities have outperformed most other sectors this year. However, given the current level of yields and given the pace of inflation, our analysis suggests that interest rates may be poised to rise over the next year or so.

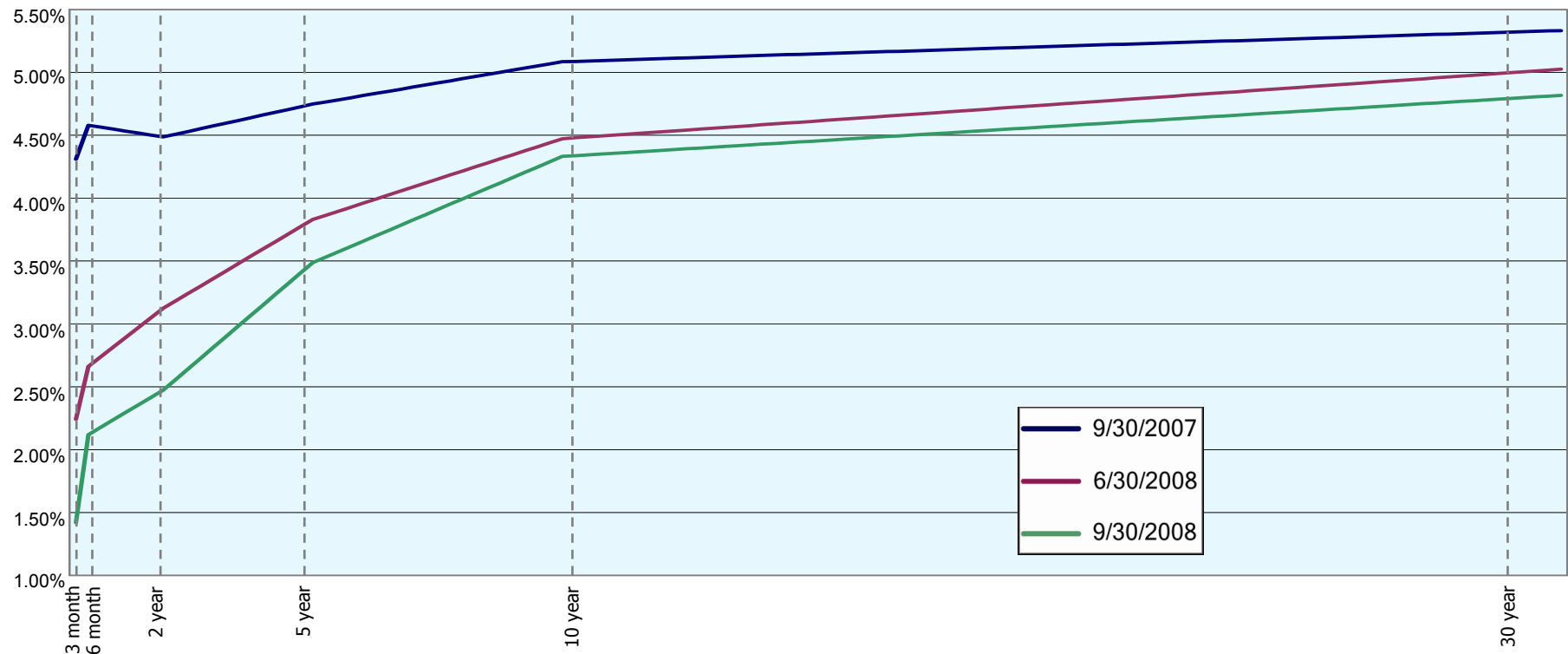
Notwithstanding this analysis, the short-term bias toward lower yields may be with us for a little while longer. Therefore, our strategy is to opportunistically take profits on longer dated treasury securities and to shorten average portfolio duration. In terms of sectors, corporate bond spreads have reached unprecedented levels. Although we do not yet recommend committing further dollars to corporate bonds, we do believe that we are nearing a point where an overweight in corporate bonds relative to benchmark weights will be appropriate. In these extremely turbulent market conditions we continue to monitor our portfolios very closely. Although no drastic investment changes have been made, we remain observant to opportunities in the market place.

Index Returns

	Quarter 6/30/08-9/30/2008	One-Year 9/30/07-9/30/08
S&P 500	(8.37%)	(21.98%)
S&P MidCap 400	(10.87)	(16.68)
S&P SmallCap 600	(0.86)	(13.83)
Dow Jones Industrials	(3.72)	(19.86)
NASDAQ	(8.59)	(21.92)
MSCI EAFE	(20.59)	(30.14)
Lehman Aggregate	(0.49)	3.65
Lehman Gov./Credit	(1.64)	2.41

U.S. Treasury Yield Curve

Third Quarter 2008

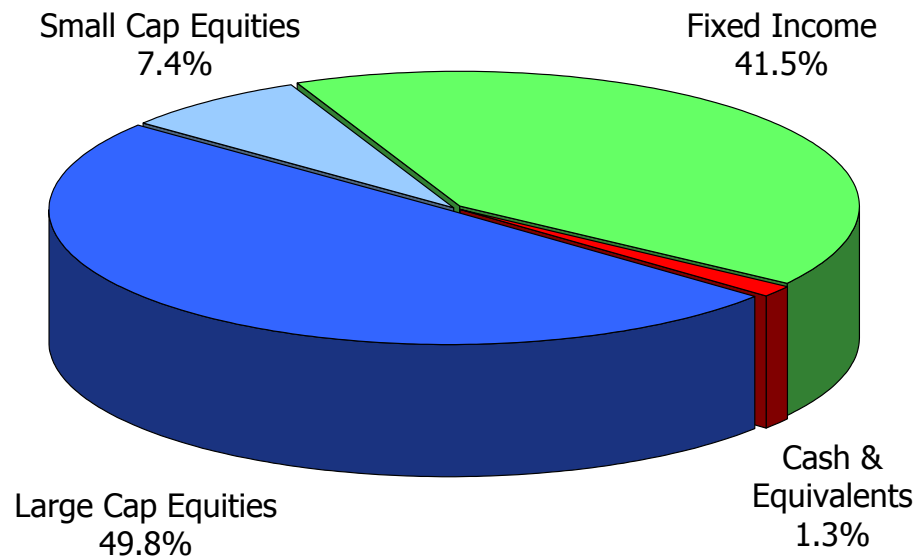


	<u>9/30/2007</u>	<u>6/30/2008</u>	<u>9/30/2008</u>	<u>Quarterly Change</u>	<u>Annual Change</u>
3 Month	3.81%	1.74%	0.92%	(0.82%)	(2.89%)
6 Month	4.09	2.16	1.62	(0.54)	(2.47)
2 Year	3.99	2.62	1.97	(0.65)	(2.02)
5 Year	4.25	3.33	2.98	(0.35)	(1.27)
10 Year	4.59	3.97	3.83	(0.14)	(0.76)
30 Year	4.84	4.52	4.31	(0.21)	(0.53)

PERFORMANCE SUMMARY

Beaver County Retirement System as of September 30, 2008

Asset Allocation



PORTFOLIO VALUE ON 6/30/08\$90,863,475.58

CONTRIBUTIONS..... 801,305.13

WITHDRAWALS..... (1,217,831.91)

REALIZED GAINS.....(215,142.84)

UNREALIZED GAINS.....(4,131,575.02)

INTEREST 510,918.61

DIVIDENDS..... 364,002.85

CHANGE IN ACCRUED INTEREST..... (18,559.16)

PORTFOLIO VALUE ON 9/30/08\$86,956,593.24

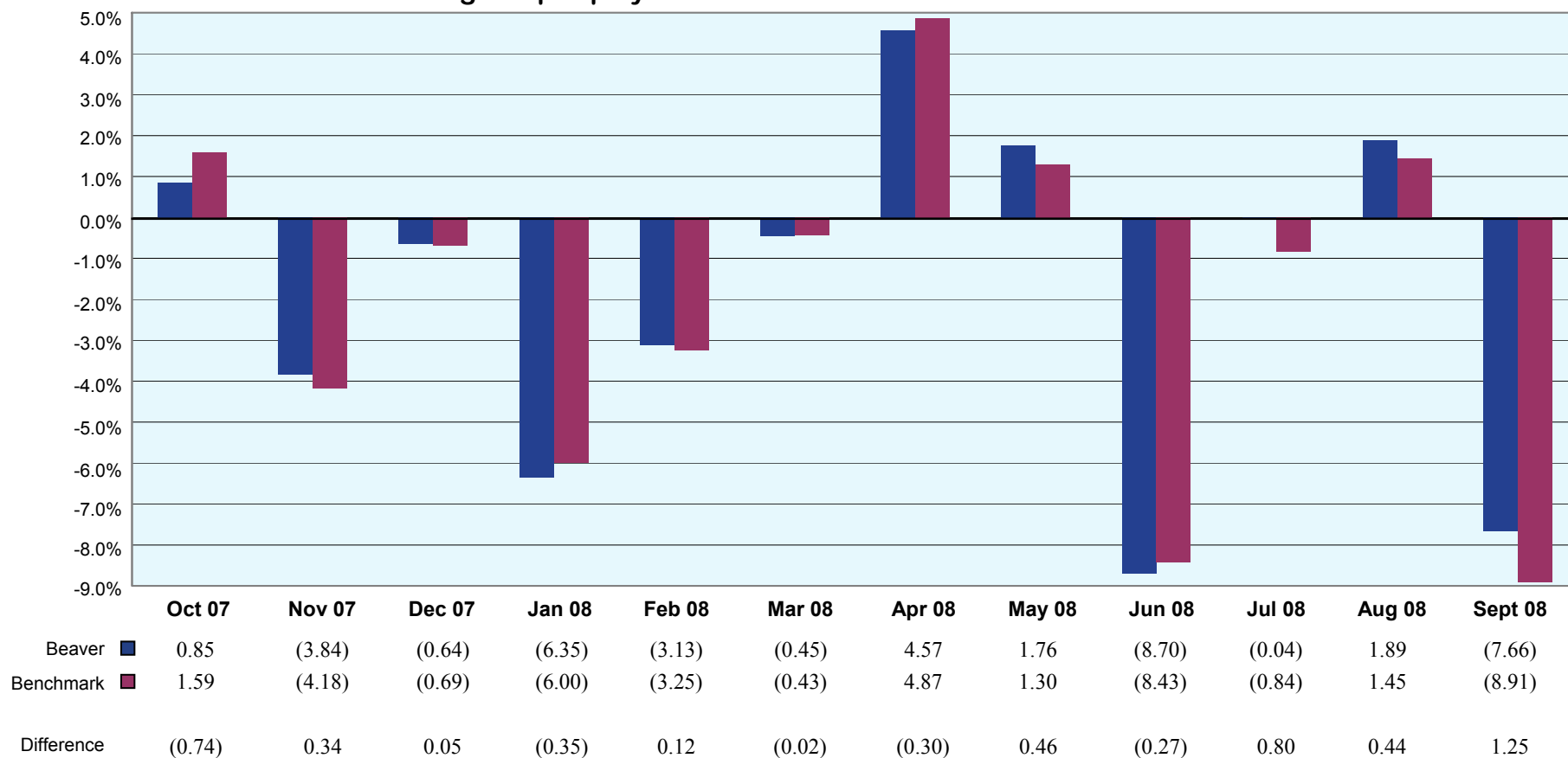
TOTAL INVESTMENT GAIN

FOR TRAILING 3 MONTHS.....(\$3,490,355.55)

	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Total Return</u>
Third Quarter 2008 (6/30/08 to 9/30/08)	90,863,475.58	86,956,593.24	(3.97%)
Year to Date (12/31/07 to 9/30/08)	94,178,593.45	86,956,593.24	(9.05%)
Inception to Date (12/26/95 to 9/30/08)	29,690,332.35	86,956,593.24	133.21%

Portfolio Performance Compared to Benchmark

Large Cap Equity Performance 1 Year – 9/30/07 to 9/30/08



Third Quarter 2008 (6/30/08 to 9/30/08)
 Year to Date (12/31/07 to 9/30/08)
 Trailing 3 Years (9/30/05 to 9/30/08)

Beaver

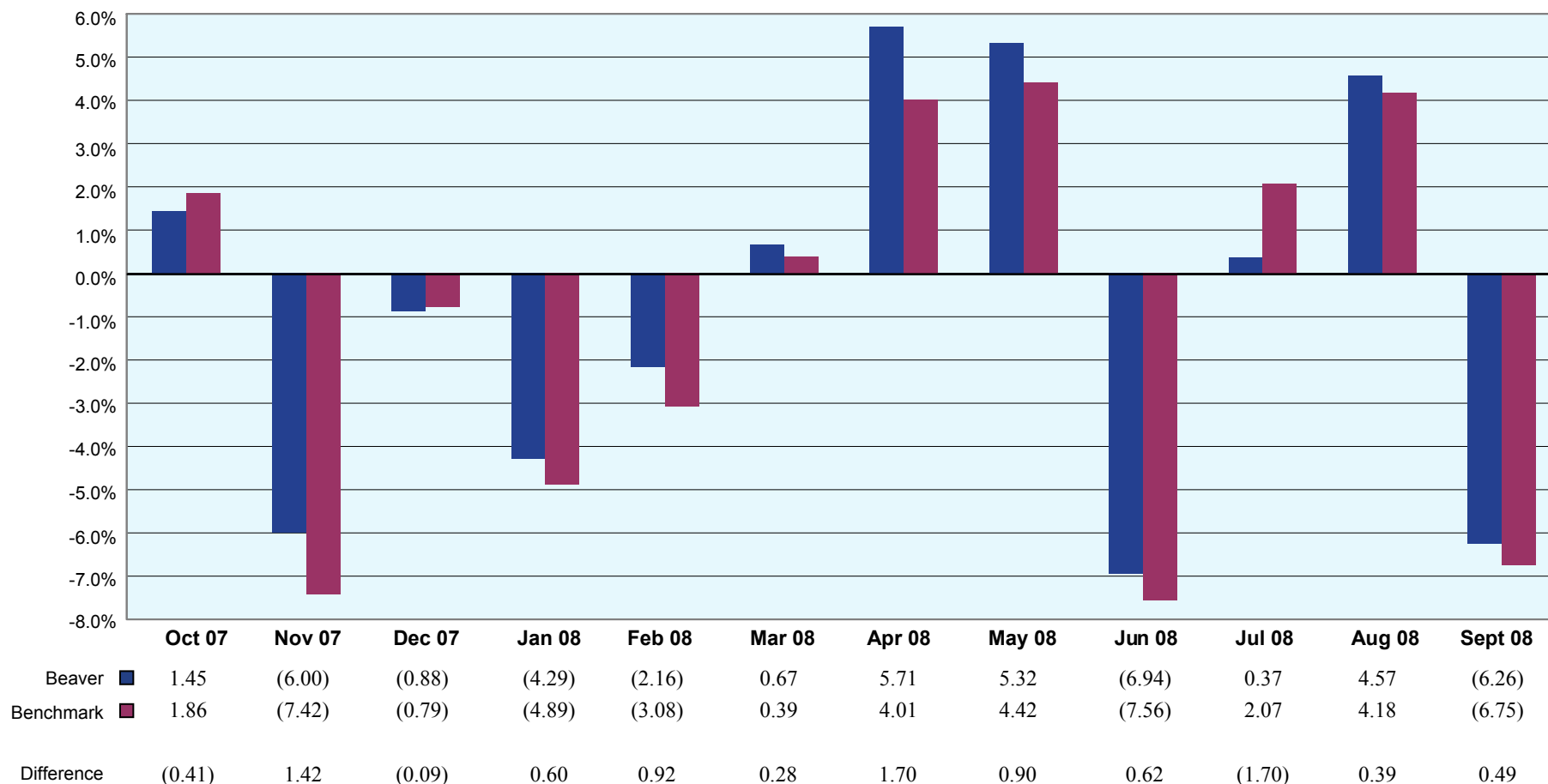
(5.96%)
 (17.49%)
 0.81%

Standard & Poor's 500 Index

(8.37%)
 (19.29%)
 0.22% *annualized*

Portfolio Performance Compared to Benchmark

Small Cap Equity Performance 1 Year – 9/30/07 to 9/30/08



Third Quarter 2008 (6/30/08 to 9/30/08)
 Year to Date (12/31/07 to 9/30/08)
 Trailing 3 Years (9/30/05 to 9/30/08)

Beaver

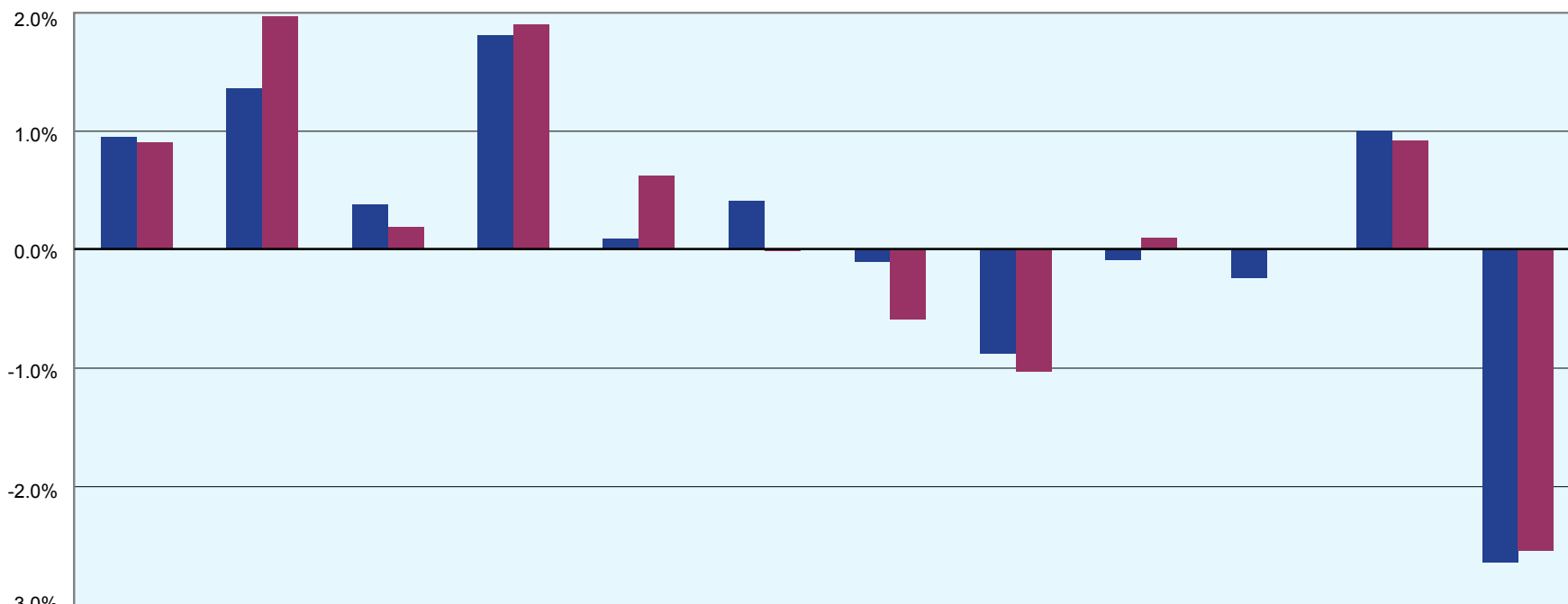
(1.61%)
 (3.92%)
 2.80%

Standard & Poor's 600 Index

(0.85%)
 (7.88%)
 2.00% *annualized*

Portfolio Performance Compared to Benchmark

Fixed Income Performance 1 Year – 9/30/07 to 9/30/08



	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08	Mar 08	Apr 08	May 08	Jun 08	Jul 08	Aug 08	Sept 08
Beaver	0.95	1.36	0.38	1.81	0.09	0.41	(0.10)	(0.88)	(0.09)	(0.24)	1.01	(2.64)
Benchmark	0.91	1.97	0.19	1.90	0.63	(0.01)	(0.59)	(1.03)	0.10	0.00	0.92	(2.54)
Difference	0.04	(0.61)	0.19	(0.09)	(0.54)	0.42	0.49	0.15	(0.19)	(0.24)	0.09	(0.10)

Third Quarter 2008 (6/30/08 to 9/30/08)
Year to Date (12/31/07 to 9/30/08)
Trailing 3 Years (9/30/05 to 9/30/08)

Beaver

(1.89%)
(0.68%)
3.40%

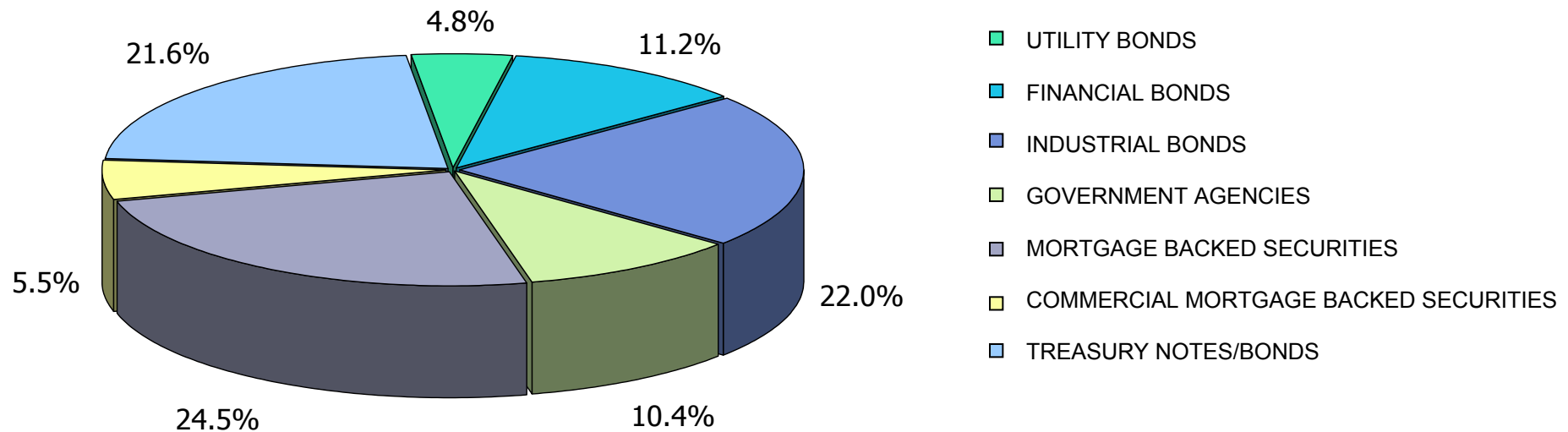
Lehman Bros. Government/Credit Index

(1.64%)
(0.67%)
3.60% *annualized*

PORTFOLIO STATISTICS

Beaver County Retirement System – Fixed Income Account as of September 30, 2008

Asset Allocation



Statistical Characteristics

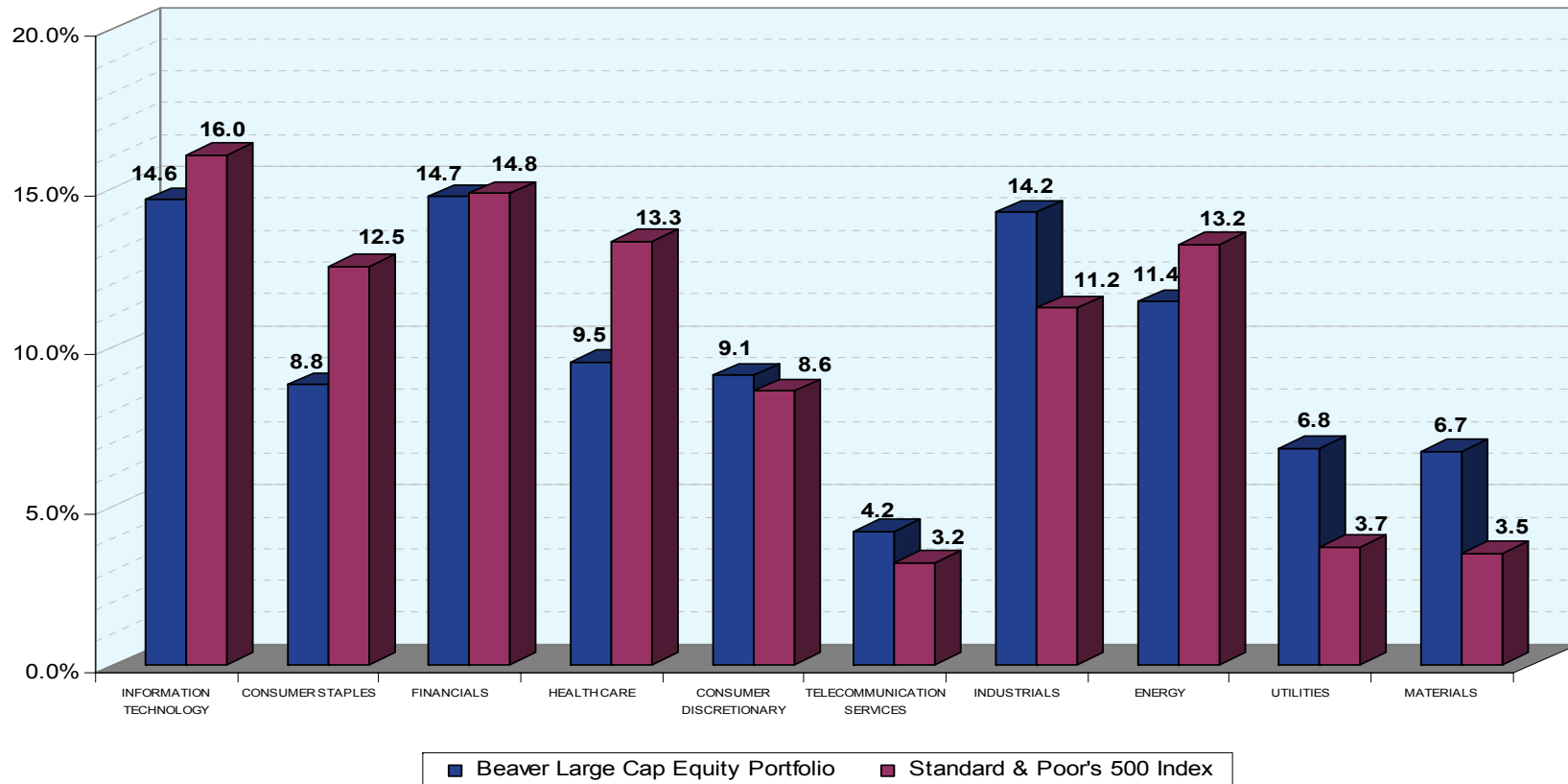
	Beaver	LBGC
Coupon	4.85%	5.18%
Yield to Maturity	5.40%	4.92%
Effective Duration	4.24 yrs	4.98 yrs
Average Credit Quality	Aa3	Aa3

Sector Allocation

	Beaver	LBGC
Utility Bonds	4.8%	3.6%
Financial Bonds	11.2%	13.4%
Industrial Bonds	22.0%	16.4%
Government Agencies	10.4%	20.3%
Other Government	0.0%	5.2%
Mortgage Backed Securities	24.5%	0.0%
Commercial Mortgage Backed Securities	5.5%	0.0%
Treasury Notes/Bonds	21.6%	41.1%

PORTFOLIO STATISTICS

Beaver County Retirement System – Large Cap Portfolio Industry Sector Diversification as of September 30, 2008

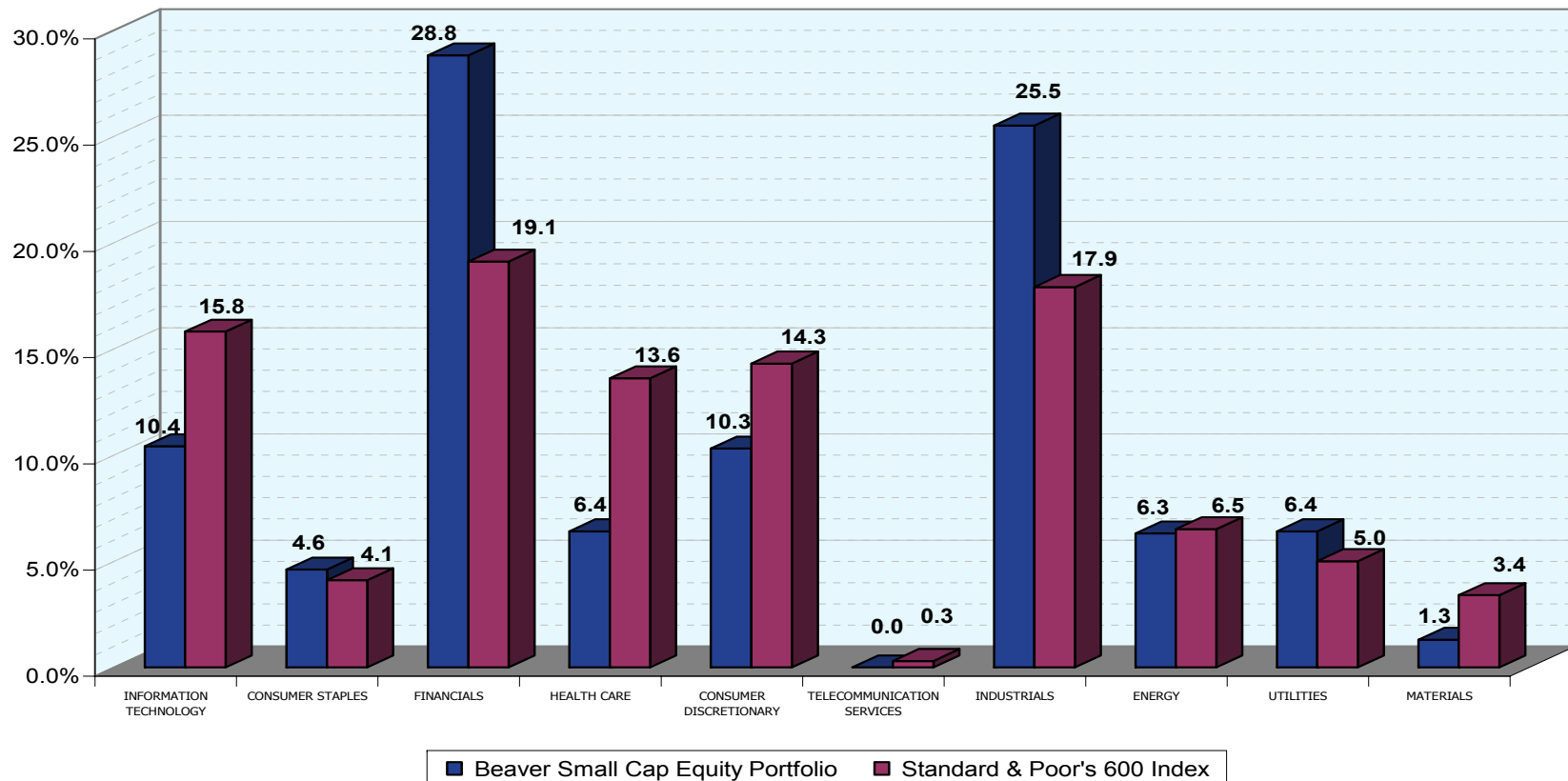


Top Ten Equity Holdings

	percentage		percentage
1. Exxon Mobil Corp.	2.2	6. JP Morgan Chase	0.9
2. General Electric Co.	1.3	7. Cisco Systems, Inc.	0.9
3. Microsoft Corp.	1.2	8. Chevron Texaco Corp.	0.8
4. Int'l Bus Machines	1.0	9. AT&T	0.8
5. Procter & Gamble	0.9	10. Johnson & Johnson	0.8

PORTFOLIO STATISTICS

Beaver County Retirement System – Small Cap Portfolio Industry Sector Diversification as of September 30, 2008



Top Ten Equity Holdings

	percentage		percentage
1. Susquehanna Bancsh	1.9	6. Waste Connections Inc.	1.6
2. United Bankshares Inc.	1.8	7. Oceaneering Intl Inc.	1.6
3. Atmos Energy Corp.	1.7	8. Philadelphia Cons	1.6
4. National Retail Properties	1.7	9. J&J Snack Foods	1.6
5. Emcor Group Inc.	1.7	10. Essex Property Trust	1.5

BEAVER COUNTY RETIREMENT SYSTEM PORTFOLIO APPRAISAL

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
COMMON STOCK								
INFORMATION TECHNOLOGY								
2,040	ANSYS Inc.	38.23	77,979.41	37.87	77,254.80	0.1	0.00	0.0
2,055	ATMI Inc.	28.75	59,080.43	17.98	36,948.90	0.0	0.00	0.0
3,795	Apple Computer	107.54	408,128.10	113.66	431,339.70	0.5	0.00	0.0
4,160	Benchmark Electronics	19.46	80,955.29	14.08	58,572.80	0.1	0.00	0.0
5,600	Brooks Automation Inc	12.00	67,180.62	8.36	46,816.00	0.1	0.00	0.0
10,970	CA Inc.	21.24	233,005.09	19.96	218,961.20	0.3	438.80	0.2
30,360	Cisco Systems, Inc.	16.46	499,764.12	22.56	684,921.60	0.8	0.00	0.0
10,250	Corning Inc.	21.60	221,380.53	15.64	160,310.00	0.2	512.50	0.3
1,830	Cymer Inc.	27.97	51,189.40	25.33	46,353.90	0.1	0.00	0.0
9,515	Dell Inc.	23.74	225,885.15	16.48	156,807.20	0.2	0.00	0.0
1,040	Google Inc Cl-B	455.78	474,014.22	403.98	420,139.20	0.5	0.00	0.0
12,125	Hewlett Packard Co.	22.70	275,291.23	46.24	560,660.00	0.6	970.00	0.2
700	ITRON Inc.	93.98	65,785.93	88.53	61,971.00	0.1	0.00	0.0
3,740	Insight Enterprises Inc.	16.62	62,158.05	13.41	50,153.40	0.1	0.00	0.0
6,745	Int'l Bus Machines	69.98	472,038.62	116.96	788,895.20	0.9	3,372.50	0.4
30,425	Intel Corporation	19.20	584,174.00	18.73	569,860.25	0.7	4,259.50	0.7
3,575	MKS Instruments Inc.	17.17	61,377.39	19.91	71,178.25	0.1	0.00	0.0
2,310	Manhattan Associates	24.88	57,469.10	22.34	51,605.40	0.1	0.00	0.0
8,050	Microchip Technology	31.66	254,841.27	29.43	236,911.50	0.3	32,683.00	13.8
1,890	Micros Syst Inc	32.34	61,122.60	26.66	50,387.40	0.1	0.00	0.0
2,705	Microsemi Corp.	21.33	57,696.00	25.48	68,923.40	0.1	0.00	0.0
34,735	Microsoft Corporation	26.64	925,394.69	26.69	927,077.15	1.1	3,820.85	0.4
20,040	Motorola, Inc.	12.15	243,484.00	7.14	143,085.60	0.2	1,002.00	0.7
20,145	Oracle Systems Corp.	15.56	313,364.79	20.31	409,144.95	0.5	0.00	0.0
8,165	Qualcomm Inc.	36.16	295,255.31	42.97	350,850.05	0.4	1,306.40	0.4
11,480	Texas Instruments	26.04	298,886.20	21.50	246,820.00	0.3	1,148.00	0.5
2,010	Varian Semiconductor	12.75	25,636.77	25.12	50,491.20	0.1	0.00	0.0
			6,452,538.33		6,976,440.05	8.0	49,513.55	0.7
CONSUMER STAPLES								
8,605	Altria Group Inc.	11.41	98,143.26	19.84	170,723.20	0.2	2,495.45	1.5
30,995	Autonation Inc.	17.81	552,112.10	11.24	348,383.80	0.4	0.00	0.0
8,730	Campbell Soup Co.	35.66	311,269.74	38.60	336,978.00	0.4	1,920.60	0.6
8,205	Coca Cola Co.	57.59	472,495.59	52.88	433,880.40	0.5	3,117.90	0.7

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
3,155	Flowers Foods Inc	22.95	72,404.41	29.36	92,630.80	0.1	473.25	0.5
2,315	Hain Celestial Group Inc.	29.80	68,987.00	27.53	63,731.95	0.1	0.00	0.0
2,980	J&J Snack Foods	28.06	83,604.20	33.91	101,051.80	0.1	275.65	0.3
8,800	Kellogg Company	48.25	424,619.92	56.10	493,680.00	0.6	2,728.00	0.6
8,516	Kraft Foods Inc.	20.67	176,056.85	32.75	278,899.00	0.3	2,299.32	0.8
6,870	Pepsi Bottling Gp.	32.20	221,214.00	29.17	200,397.90	0.2	1,167.90	0.6
5,635	Pepsico Inc.	44.00	247,937.40	71.27	401,606.45	0.5	2,394.87	0.6
8,605	Philip Morris Intl.	25.58	220,079.06	48.10	413,900.50	0.5	0.00	0.0
10,295	Procter & Gamble	53.69	552,687.29	69.69	717,458.55	0.8	4,118.00	0.6
980	Texas Industries Inc.	65.26	63,956.70	40.86	40,042.80	0.0	73.50	0.2
			3,565,567.52		4,093,365.15	4.7	21,064.44	0.5

FINANCIALS

2,555	Acadia Realty Trust	24.93	63,706.63	25.28	64,590.40	0.1	536.55	0.8
8,206	Apt Invt & Mgmt Co-A	48.42	397,343.53	35.02	287,374.12	0.3	4,923.60	1.7
2,860	Avalonbay Comm, Inc.	86.12	246,298.91	98.42	281,481.20	0.3	2,552.55	0.9
17,413	Bank of America Corp.	32.34	563,171.44	35.00	609,455.00	0.7	11,144.32	1.8
6,460	Bank of NY Co.	44.64	288,372.46	32.58	210,466.80	0.2	1,550.40	0.7
2,450	Biomed Realty Trust Inc.	22.38	54,837.62	26.45	64,802.50	0.1	820.75	1.3
8,555	Cincinnati Financial	40.98	350,543.60	28.44	243,304.20	0.3	3,336.45	1.4
21,990	Citigroup - New	31.00	681,771.58	20.51	451,014.91	0.5	7,036.80	1.6
7,510	Comerica Inc.	37.09	278,542.15	32.79	246,252.90	0.3	4,956.60	2.0
864	Deerfield Capital Corp	1.45	1,249.70	0.65	561.53	0.0	362.84	64.6
2,307	Delphi Fin Gp-A	34.34	79,232.46	28.04	64,688.28	0.1	230.70	0.4
7,960	Developers Div. Rlty.	34.26	272,673.78	31.69	252,252.40	0.3	5,492.40	2.2
1,550	Entertainment Prop Inc	41.63	64,529.15	54.72	84,816.00	0.1	1,302.00	1.5
6,705	Equifax Inc.	34.90	234,007.18	34.45	230,987.25	0.3	268.20	0.1
840	Essex Property Trust	106.79	89,705.29	118.33	99,397.20	0.1	856.80	0.9
4,965	Federated Inv - CI B	31.35	155,644.18	28.85	143,240.25	0.2	1,191.60	0.8
14,330	First Horizon	28.25	404,820.85	9.36	134,128.80	0.2	0.00	0.0
3,635	First Midwest Bancorp	31.03	112,776.31	24.24	88,112.40	0.1	1,126.85	1.3
3,837	Glacier Bancorp	18.41	70,651.53	24.77	95,042.49	0.1	498.81	0.5
2,480	Goldman Sachs Grp.	98.66	244,672.40	128.00	317,440.00	0.4	868.00	0.3
26,540	Huntington Bancshares	11.11	294,831.66	7.99	212,054.60	0.2	3,516.55	1.7
1,320	Investment Tech Grp.	43.21	57,038.10	30.43	40,167.60	0.0	0.00	0.0
15,000	JP Morgan Chase	33.28	499,144.51	46.70	700,500.00	0.8	5,700.00	0.8
1,525	Kilroy Realty	57.95	88,376.13	47.79	72,879.75	0.1	884.50	1.2
5,500	Lexington Realty Trust	17.19	94,553.67	17.22	94,710.00	0.1	1,815.00	1.9
3,460	M&T Bank	107.70	372,643.50	89.25	308,805.00	0.4	2,422.00	0.8

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
11,160	Marshall & Ilsley Corp.	22.38	249,738.48	20.15	224,874.00	0.3	3,571.20	1.6
6,200	Merrill Lynch & Co.	51.65	320,210.85	25.30	156,860.00	0.2	2,170.00	1.4
6,455	Morgan Stanley	39.08	252,271.70	23.00	148,465.00	0.2	1,742.85	1.2
4,520	National Retail Properties	21.31	96,333.86	23.95	108,254.00	0.1	1,695.00	1.6
1,425	PS Business Parks Inc./CA	47.53	67,734.95	57.60	82,080.00	0.1	627.00	0.8
1,745	Philadelphia Cons	36.08	62,958.03	58.57	102,204.65	0.1	0.00	0.0
5,610	Presidential Life	16.92	94,925.69	15.79	88,581.90	0.1	0.00	0.0
1,370	Proassurance Corp	48.33	66,210.75	56.00	76,720.00	0.1	0.00	0.0
2,895	Senior Housing Prop Tr.	21.39	61,910.15	23.83	68,987.85	0.1	1,013.25	1.5
5,245	South Financial Grp.	13.57	71,164.16	7.33	38,445.85	0.0	52.45	0.1
6,320	Susquehanna Bancsh	19.43	122,822.05	19.52	123,366.40	0.1	1,643.20	1.3
6,015	T Rowe Price Gr	47.86	287,877.90	53.71	323,065.65	0.4	1,443.60	0.4
2,050	Tanger Factory Outlet Center	35.27	72,295.51	43.79	89,769.50	0.1	779.00	0.9
6,230	Torchmark Corp.	57.39	357,560.45	59.80	372,554.00	0.4	872.20	0.2
1,120	UMB Financial Corp.	37.71	42,234.75	52.52	58,822.40	0.1	184.80	0.3
3,230	United Bankshares Inc.	27.32	88,256.84	35.00	113,050.00	0.1	936.70	0.8
1,830	Watson Wyatt WW Cl-A	37.93	69,409.32	49.73	91,005.90	0.1	137.25	0.2
11,820	Wells Fargo & Co.	31.06	367,181.21	37.53	443,604.60	0.5	13,238.40	3.0
1,420	Zenith Natl Ins Cp	41.99	59,620.31	36.64	52,028.80	0.1	710.00	1.4
			8,871,855.29		8,161,266.09	9.4	94,211.17	1.2
HEALTH CARE								
6,400	Abbott Laboratories	43.82	280,445.45	57.58	368,512.00	0.4	2,304.00	0.6
5,810	Amgen Inc.	50.12	291,206.72	59.27	344,358.70	0.4	0.00	0.0
7,495	Applied Biosystems	31.84	238,640.80	34.25	256,703.75	0.3	318.54	0.1
1,675	Arthrocare Corp.	43.86	73,458.80	27.72	46,431.00	0.1	0.00	0.0
10,985	Bristol Myers Squibb	24.40	268,076.52	20.85	229,037.25	0.3	3,405.35	1.5
2,715	Conmed Corp.	27.01	73,339.48	32.00	86,880.00	0.1	0.00	0.0
5,460	Gilead Sciences Inc.	44.43	242,581.25	45.63	249,139.80	0.3	0.00	0.0
1,360	Idexx Laboratories Inc.	24.63	33,495.56	54.80	74,528.00	0.1	0.00	0.0
1,740	Immucor Inc.	30.78	53,557.20	31.96	55,610.40	0.1	0.00	0.0
8,935	Johnson & Johnson	49.96	446,413.46	69.28	619,016.80	0.7	4,110.10	0.7
5,860	Lilly (ELI) Co.	60.00	351,601.67	44.03	258,015.80	0.3	2,754.20	1.1
4,750	Medtronic, Inc.	53.90	256,030.70	50.10	237,975.00	0.3	2,090.00	0.9
8,920	Merck & Co. Inc.	49.88	444,914.56	31.56	281,515.20	0.3	3,389.60	1.2
1,260	Owens & Minor Inc	42.25	53,232.23	48.50	61,110.00	0.1	252.00	0.4
1,140	Pediatric Medical Grp Inc.	48.76	55,589.59	53.92	61,468.80	0.1	0.00	0.0
29,820	Pfizer Inc.	30.81	918,689.54	18.44	549,880.80	0.6	9,542.40	1.7
10,630	Schering-Plough	24.38	259,208.60	18.47	196,336.10	0.2	690.95	0.4

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
2,160	Sunrise Senior Living	26.64	57,537.00	13.79	29,786.40	0.0	0.00	0.0
5,065	UnitedHealth Group	51.60	261,346.40	25.39	128,600.35	0.1	151.95	0.1
3,535	WellPoint Health	79.89	282,426.70	46.77	165,331.95	0.2	0.00	0.0
6,425	Wyeth	39.60	254,429.98	36.94	237,339.50	0.3	1,799.00	0.8
			5,196,222.20		4,537,577.60	5.2	30,808.09	0.7
CONSUMER DISCRETIONARY								
7,155	CKE Restaurants, Inc.	12.13	86,824.49	10.60	75,843.00	0.1	429.30	0.6
6,890	CVS Corp.	37.12	255,756.80	33.66	231,917.40	0.3	413.40	0.2
16,862	Comcast Corp.-Cl A	18.07	304,729.87	19.63	331,001.06	0.4	1,053.87	0.3
11,385	Disney Walt Co.	22.92	260,904.28	30.69	349,405.65	0.4	3,984.75	1.1
1,215	Factset Research Sys Inc.	53.58	65,103.35	52.25	63,483.75	0.1	218.70	0.3
4,320	Fortune Brands	65.25	281,866.61	57.36	247,795.20	0.3	1,814.40	0.7
3,115	Genuine Parts Co.	40.08	124,861.66	40.21	125,254.15	0.1	1,214.85	1.0
10,140	Home Depot Inc.	28.55	289,523.71	25.89	262,524.60	0.3	2,281.50	0.9
5,975	McDonalds Corp.	52.37	312,883.27	61.70	368,657.50	0.4	2,240.62	0.6
7,540	Meredith Corp.	49.21	371,045.46	28.04	211,421.60	0.2	1,621.10	0.8
13,390	News Corp-Cl A	18.51	247,795.34	11.99	160,546.10	0.2	803.40	0.5
1,575	Polaris Industries Inc.	41.83	65,878.00	45.49	71,646.75	0.1	598.50	0.8
2,705	Sonic Corp.	21.27	57,547.52	14.57	39,411.85	0.0	0.00	0.0
1,740	Sovran Self Storage	36.95	64,292.83	44.69	77,760.60	0.1	1,096.20	1.4
4,660	Stanley Works	56.29	262,311.40	41.74	194,508.40	0.2	1,444.60	0.7
5,355	Target Corp.	53.37	285,796.35	49.05	262,662.75	0.3	856.80	0.3
22,085	Time Warner Inc.	14.71	324,800.04	13.11	289,534.35	0.3	1,380.31	0.5
1,805	Toro Co.	46.57	84,066.26	41.30	74,546.50	0.1	270.75	0.4
8,150	Triarc Class B	0.00	0.00	5.81	47,351.50	0.1	733.50	1.5
475	Trimble Nav. Ltd	25.65	12,183.99	25.86	12,283.50	0.0	0.00	0.0
2,205	Viad Corp.	35.63	78,566.25	28.79	63,481.95	0.1	88.20	0.1
10,260	Wal-Mart Stores	49.39	506,725.25	59.89	614,471.40	0.7	2,436.75	0.4
520	Washington Post Cl-B	754.95	392,572.28	556.76	289,515.20	0.3	1,118.00	0.4
1,915	Watsco, Inc.	44.11	84,464.49	50.28	96,286.20	0.1	861.75	0.9
8,150	Wendy's /Arby's Group	8.44	68,808.52	5.26	42,869.00	0.0	326.00	0.8
			4,889,308.03		4,604,179.96	5.3	27,287.26	0.6
TELECOMMUNICATION SERVICES								
22,840	AT&T	35.36	807,676.11	27.92	637,692.80	0.7	9,136.00	1.4
6,670	American Tower Cl-A	35.61	237,525.37	35.97	239,919.90	0.3	0.00	0.0
7,420	Centurytel	34.10	253,042.78	36.65	271,943.00	0.3	500.85	0.2
1	Citadel Broadcasting	25.82	25.81	0.78	0.78	0.0	0.00	0.0

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
223	Fairpoint Comm., Inc	8.67	1,933.86	8.67	1,933.41	0.0	57.42	3.0
25,110	Frontier Comm.	10.35	259,888.50	11.50	288,765.00	0.3	6,277.50	2.2
11,840	Verizon Comm.	36.61	433,443.50	32.09	379,945.60	0.4	5,091.20	1.3
			1,993,535.93		1,820,200.49	2.1	21,062.97	1.2
INDUSTRIALS								
3,730	3M Co.	75.26	280,701.90	68.31	254,796.30	0.3	1,865.00	0.7
1,865	Acuity Brands Inc.	35.35	65,924.03	41.76	77,882.40	0.1	242.45	0.3
1,850	Albany Intl Corp.	35.31	65,317.80	27.33	50,560.50	0.1	222.00	0.4
1,150	Anixter Intl Inc.	57.02	65,574.50	59.51	68,436.50	0.1	0.00	0.0
2,225	Aptargroup Inc.	26.47	58,884.75	39.11	87,019.75	0.1	289.25	0.3
6,130	Avery Dennison Corp.	45.72	280,276.47	44.48	272,662.40	0.3	2,513.30	0.9
3,185	Baldor Electric Co.	33.38	106,304.10	28.81	91,759.85	0.1	541.45	0.6
1,785	Barnes Group Inc.	30.44	54,336.11	20.22	36,092.70	0.0	285.60	0.8
1,945	Belden CDT	33.56	65,265.43	31.79	61,831.55	0.1	97.25	0.2
4,185	Boeing Co.	49.60	207,574.40	57.35	240,009.75	0.3	1,674.00	0.7
4,385	Caterpillar Inc.	63.94	280,386.55	59.60	261,346.00	0.3	1,841.70	0.7
9,690	Cintas Corp.	34.73	336,503.13	28.71	278,199.90	0.3	4,457.40	1.6
1,855	Clarcor Inc.	34.56	64,106.34	37.95	70,397.25	0.1	148.40	0.2
8,005	Cooper Industries	45.60	365,040.10	39.95	319,799.75	0.4	2,001.25	0.6
1,340	Curtiss-Wright Corp.	46.93	62,892.63	45.45	60,903.00	0.1	107.20	0.2
4,880	Danaher Corp.	72.83	355,387.75	69.40	338,672.00	0.4	146.40	0.0
3,595	Deere & Company	82.94	298,164.27	49.50	177,952.50	0.2	1,006.60	0.6
3,745	Dover Corporation	38.27	143,336.67	40.55	151,859.75	0.2	749.00	0.5
4,095	Emcor Group Inc.	19.66	80,518.76	26.32	107,780.40	0.1	0.00	0.0
175	FLIR System, Inc.	31.43	5,500.25	38.42	6,723.50	0.0	0.00	0.0
1,995	G & K Services, Inc.	37.81	75,430.15	33.05	65,934.75	0.1	99.75	0.2
1,890	Gardner Denver Inc.	31.71	59,933.22	34.72	65,620.80	0.1	0.00	0.0
10,695	GenCorp Inc.	7.39	78,983.64	6.74	72,084.30	0.1	0.00	0.0
41,245	General Electric Co.	33.34	1,375,266.09	25.50	1,051,747.50	1.2	12,785.95	1.2
2,915	Grainger (W.W.) Inc.	75.77	220,883.54	86.97	253,517.55	0.3	1,166.00	0.5
6,665	Honeywell Intl., Inc.	48.18	321,087.35	41.55	276,930.75	0.3	1,832.87	0.7
7,650	Ingersoll-Rand Co.	42.73	326,855.70	31.17	238,450.50	0.3	1,377.00	0.6
3,805	Jacobs Engineering Gp.	78.43	298,442.51	54.31	206,649.55	0.2	0.00	0.0
2,035	Kaydon Corp.	42.39	86,272.77	45.06	91,697.10	0.1	305.25	0.3
1,455	Landstar System Inc.	39.13	56,932.55	44.06	64,107.30	0.1	54.56	0.1
1,885	Lennox Intl Inc.	29.53	55,654.74	33.27	62,713.95	0.1	263.90	0.4
9,155	Meadwestvaco Corp.	26.33	241,013.61	23.31	213,403.05	0.2	2,105.65	1.0
1,490	Moog Inc.	44.86	66,838.72	42.88	63,891.20	0.1	0.00	0.0

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
1,960	Oceaneering Intl Inc.	75.24	147,469.81	53.32	104,507.20	0.1	0.00	0.0
12,830	Pitney Bowes, Inc.	40.41	518,506.78	33.26	426,725.80	0.5	4,490.50	1.1
8,065	RR Donnelley	36.41	293,643.25	24.53	197,834.45	0.2	2,096.90	1.1
1,825	Regal Beloit	47.01	85,791.46	42.52	77,599.00	0.1	292.00	0.4
3,925	Rockwell Collins	65.51	257,137.05	48.09	188,753.25	0.2	942.00	0.5
300	Shaw Group Inc	60.35	18,105.72	30.73	9,219.00	0.0	0.00	0.0
5,415	Textron, Inc.	46.54	251,989.85	29.28	158,551.20	0.2	1,245.45	0.8
5,035	United Parcel Svc-CI B	69.38	349,323.90	62.89	316,651.15	0.4	2,265.75	0.7
1,445	United Stationers Inc.	31.30	45,233.18	47.83	69,114.35	0.1	0.00	0.0
5,620	United Tech Corp.	44.11	247,899.00	60.06	337,537.20	0.4	1,798.40	0.5
3,080	Waste Connections Inc.	28.60	88,079.30	34.30	105,644.00	0.1	0.00	0.0
2,180	Woodward Governor	31.57	68,826.74	35.27	76,888.60	0.1	130.80	0.2
			8,877,596.57		7,810,459.25	9.0	51,440.99	0.7
ENERGY								
2,805	Apache Corp.	93.22	261,492.20	104.28	292,505.40	0.3	420.75	0.1
550	Cabot Oil & Gas	28.14	15,477.00	36.14	19,877.00	0.0	16.50	0.1
7,875	ChevronTexaco Corp.	44.86	353,256.80	82.48	649,530.00	0.7	5,118.75	0.8
7,885	ConocoPhillips	36.98	291,610.01	73.25	577,576.25	0.7	3,705.95	0.6
3,700	Devon Energy Corp.	79.60	294,506.68	91.20	337,440.00	0.4	592.00	0.2
22,370	Exxon Mobil Corp.	44.75	1,000,987.45	77.66	1,737,254.20	2.0	8,948.00	0.5
2,310	Helix Energy	32.52	75,132.31	24.28	56,086.80	0.1	0.00	0.0
2,080	Kirby Corp.	37.63	78,279.73	37.94	78,915.20	0.1	0.00	0.0
6,950	Nabors Industries	30.89	214,683.37	24.92	173,194.00	0.2	0.00	0.0
3,585	Noble Energy Inc	74.81	268,181.66	55.59	199,290.15	0.2	645.30	0.3
4,740	Occidental Pete	65.27	309,362.26	70.45	333,933.00	0.4	1,516.80	0.5
1,410	Penn Virginia Corp.	36.41	51,333.80	53.44	75,350.40	0.1	79.31	0.1
7,245	Rowan Cos.	31.04	224,889.55	30.55	221,334.75	0.3	724.50	0.3
5,435	Schlumberger LTD	38.89	211,354.22	78.09	424,419.15	0.5	1,141.35	0.3
1,000	Seacor Smit Inc.	82.55	82,552.61	78.95	78,950.00	0.1	0.00	0.0
1,745	St. Mary Land & Exp.	36.55	63,786.10	35.65	62,209.25	0.1	87.25	0.1
760	Unit Corp.	47.00	35,720.91	49.82	37,863.20	0.0	0.00	0.0
			3,832,606.66		5,355,728.75	6.2	22,996.46	0.4
UTILITIES								
4,205	Atmos Energy Corp.	27.70	116,464.70	26.62	111,937.10	0.1	1,366.62	1.2
3,690	Avista Corp.	25.13	92,738.52	21.71	80,109.90	0.1	608.85	0.8
16,840	Centerpoint Energy Inc.	18.52	311,802.70	14.57	245,358.80	0.3	3,073.30	1.3
6,390	DTE Energy Company	41.56	265,561.37	40.12	256,366.80	0.3	3,386.70	1.3

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
6,811	Integry Energy Gp. Inc.	53.24	362,634.62	49.94	340,141.34	0.4	4,563.37	1.3
12,730	NICOR Inc.	44.39	565,139.24	44.35	564,575.50	0.6	5,919.45	1.0
8,180	PP & L Resources	48.51	396,776.63	37.02	302,823.60	0.3	2,740.30	0.9
13,230	Pepco Holdings, Inc.	25.85	341,938.61	22.91	303,099.30	0.3	3,572.10	1.2
2,540	Piedmont Nat. Gas Co.	26.07	66,219.32	31.96	81,178.40	0.1	660.40	0.8
8,330	Pinnacle West	42.52	354,196.18	34.41	286,635.30	0.3	4,373.25	1.5
3,465	Southern Union Co.	27.93	96,774.94	20.65	71,552.25	0.1	519.75	0.7
3,830	Teco Energy	15.70	60,124.11	15.73	60,245.90	0.1	746.85	1.2
2,625	UGI Corp.	27.81	72,993.11	25.78	67,672.50	0.1	1,850.62	2.7
14,625	Williams Co., Inc.	32.49	475,160.40	23.65	345,881.25	0.4	1,608.75	0.5
12,865	Xcel Enegery Inc.	24.07	309,606.17	19.99	257,171.35	0.3	3,055.44	1.2
			3,888,130.62		3,374,749.29	3.9	38,045.76	1.1
MATERIALS								
3,235	Air Prod. & Chem.	84.38	272,968.01	68.49	221,565.15	0.3	1,423.40	0.6
13,190	Bemis Company	27.54	363,232.05	26.21	345,709.90	0.4	2,901.80	0.8
6,960	Du Pont (E.I.)	42.68	297,083.42	40.30	280,488.00	0.3	2,853.60	1.0
4,480	Ecolab Inc.	31.76	142,284.80	48.52	217,369.60	0.2	582.40	0.3
3,120	Freeport MC Co. - CI B	82.04	255,964.80	56.85	177,372.00	0.2	1,365.00	0.8
7,080	Int'l Flavors and Frag.	35.88	254,063.09	39.46	279,376.80	0.3	1,628.40	0.6
275	Massey Energy Co.	34.14	9,389.35	35.67	9,809.25	0.0	13.75	0.1
3,120	Monsanto Co.	103.25	322,135.63	98.98	308,817.60	0.4	748.80	0.2
910	Patriot Coal Corp.	66.26	60,299.24	29.05	26,435.50	0.0	0.00	0.0
7,755	Plum Creek Timber	35.59	275,987.53	49.86	386,664.30	0.4	3,257.10	0.8
745	Rohm and Haas	74.46	55,472.70	70.00	52,150.00	0.1	305.45	0.6
12,530	Sealed Air	24.10	301,951.56	21.99	275,534.70	0.3	1,503.60	0.5
7,115	Sigma-Aldrich	29.68	211,189.57	52.42	372,968.30	0.4	924.95	0.2
610	Valmont Industries	93.18	56,838.21	82.69	50,440.90	0.1	79.30	0.2
			2,878,859.96		3,004,702.00	3.5	17,587.55	0.6
	COMMON STOCK Total		50,446,221.11		49,738,668.62	57.2	374,018.24	0.8
TREASURY BILLS								
3,000,000	U.S. Treasury Bill	99.51	2,985,288.33	99.41	2,982,187.50	3.4	0.00	0.0
	TREASURY BILLS Total		2,985,288.33		2,982,187.50	3.4	0.00	0.0
U.S. TREASURY NOTES/BONDS								
2,800,000	U.S. Treasury Note 2.000% Due 09-30-10	100.60	2,816,843.75	100.03	2,800,875.00	3.2	56,000.00	2.0
200,000	U.S. Treasury Note 4.875% Due 02-15-12	99.57	199,140.63	107.47	214,937.50	0.2	9,750.00	4.5

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
110,000	U.S. Treasury Note 4.750% Due 05-31-12	105.02	115,517.60	107.47	118,215.62	0.1	5,225.00	4.4
210,000	U.S. Treasury Note 4.875% Due 06-30-12	105.62	221,812.50	107.94	226,668.75	0.3	10,237.50	4.5
275,000	U.S. Treasury Note 4.625% Due 07-31-12	104.58	287,589.50	107.12	294,593.75	0.3	12,718.75	4.3
500,000	U.S. Treasury Note 4.250% Due 08-15-13	100.03	500,156.25	106.16	530,781.25	0.6	21,250.00	4.0
475,000	U.S. Treasury Note 4.750% Due 05-15-14	105.68	501,980.00	109.22	518,789.06	0.6	22,562.50	4.3
	Accrued Interest				18,745.25	0.0		
	U.S. TREASURY NOTES/BONDS Total		4,643,040.23		4,723,606.19	5.4	137,743.75	2.9

GOVERNMENT AGENCIES

500,000	Tenn Valley Authority 6.000% Due 03-15-13	101.58	507,880.00	108.30	541,525.00	0.6	30,000.00	5.5
150,000	Fed Home Loan Mtg 4.500% Due 07-15-13	101.22	151,828.50	102.44	153,656.25	0.2	6,750.00	4.4
270,000	Fed Natl Mtg Assoc 4.625% Due 10-15-13	101.25	273,375.00	102.94	277,931.25	0.3	12,487.50	4.5
500,000	Fed Natl Mtg Assoc 5.500% Due 12-30-14	99.56	497,812.50	100.47	502,343.75	0.6	27,500.00	5.5
500,000	Fed Natl Mtg Assoc 5.000% Due 06-26-15	95.50	477,500.00	99.50	497,500.00	0.6	25,000.00	5.0
360,000	Fed Natl Mtg Assoc 5.000% Due 03-15-16	101.97	367,088.40	102.91	370,462.50	0.4	18,000.00	4.9
1,000,000	Fed Home Loan Mtg 6.000% Due 03-30-22	99.85	998,470.00	100.48	1,004,796.00	1.2	60,000.00	6.0
300,000	Fed Natl Mtg Assoc 6.250% Due 05-15-29	115.35	346,045.50	114.66	343,968.75	0.4	18,750.00	5.5
	Accrued Interest				29,563.72	0.0		
	GOVERNMENT AGENCIES Total		3,619,999.90		3,721,747.22	4.3	198,487.50	5.4

MORTGAGE BACKED SECURITIES

FNMA/FHLMC

139,937	FGCI #E97963 5.000% Due 07-01-18	101.78	142,429.39	100.15	140,152.27	0.2	6,996.84	5.0
285,795	FGCI #G18008 4.500% Due 09-01-19	100.31	286,687.66	98.09	280,341.59	0.3	12,860.75	4.6

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
220,140	FNCL #831192 5.000% Due 11-01-20	98.79	217,467.56	99.70	219,488.42	0.3	11,007.00	5.0
406,386	FGCI #G11900 5.500% Due 02-01-21	98.91	401,940.91	100.92	410,136.69	0.5	22,351.22	5.4
725,310	FGCI #G12335 5.000% Due 05-01-21	98.59	715,109.97	99.53	721,893.43	0.8	36,265.48	5.0
529,496	FNCL #886599 5.500% Due 08-01-21	99.52	526,930.96	100.95	534,547.09	0.6	29,122.26	5.4
230,528	FGCI #G18175 5.500% Due 04-01-22	100.37	231,390.28	100.74	232,245.55	0.3	12,679.05	5.5
176,055	FGCI #G12777 5.000% Due 08-01-22	98.83	173,987.37	99.23	174,694.36	0.2	8,802.76	5.0
244,922	FNCL #949663 5.500% Due 08-01-22	100.41	245,913.84	100.90	247,131.07	0.3	13,470.70	5.5
342,167	FNCL #799556 5.000% Due 11-01-34	99.64	340,937.38	97.66	334,160.33	0.4	17,108.35	5.1
791,061	FNCL# 832869 5.000% Due 09-01-35	96.80	765,722.74	97.60	772,060.13	0.9	39,553.07	5.1
162,042	FNCL #805625 5.500% Due 12-01-35	98.47	159,560.72	99.86	161,816.75	0.2	8,912.31	5.5
383,472	FNCL #852028 6.000% Due 01-01-36	99.16	380,236.46	101.43	388,971.00	0.4	23,008.32	5.9
720,147	FNCL #868450 5.500% Due 04-01-36	99.22	714,520.46	99.81	718,807.14	0.8	39,608.06	5.5
1,038,309	FNCL #938289 5.500% Due 07-01-37	98.68	1,024,603.20	99.81	1,036,315.28	1.2	57,106.99	5.5
234,828	FGLMC #G03216 5.000% Due 09-01-37	96.12	225,711.79	97.47	228,893.66	0.3	11,741.39	5.1
321,019	FNCL #899719 5.000% Due 09-01-37	96.12	308,557.35	97.51	313,038.79	0.4	16,050.97	5.1
1,424,494	FNCL #256925 6.000% Due 10-01-37	100.77	1,435,406.15	101.40	1,444,394.56	1.7	85,469.66	5.9
	Accrued Interest				36,420.39	0.0		
			8,297,114.20		8,395,508.50	9.7	452,115.19	5.4
GNMA								
191,676	GNJO #605142 4.500% Due 03-15-19	100.75	193,113.93	99.56	190,834.90	0.2	8,625.44	4.5
179,158	GNSF #594139 5.000% Due 10-15-33	100.09	179,325.48	98.32	176,156.63	0.2	8,957.88	5.1

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
371,891	GNSF #671531 5.500% Due 09-15-37 Accrued Interest	100.25	372,820.29	100.25	372,835.14	0.4	20,453.98	5.5
					3,064.12	0.0		
			745,259.71		742,890.79	0.9	38,037.29	5.1
	MORTGAGE BACKED SECURITIES Total		9,042,373.91		9,138,399.29	10.5	490,152.48	5.4

COMMERCIAL MORTGAGE BACKED SECURITIES

750,000	GS Mortgage Sec 5.396% Due 08-10-38	101.28	759,609.38	93.59	701,925.00	0.8	40,470.00	5.8
500,000	Merrill Lynch Mtg Tr 5.499% Due 01-12-44	96.99	484,941.41	79.61	398,075.00	0.5	27,497.19	6.9
1,000,000	JPMCC 2006-LDP9 A3 5.336% Due 05-15-47 Accrued Interest	99.09	990,937.50	86.06	860,610.00	1.0	53,360.00	6.2
					5,846.53	0.0		
	COMMERCIAL MORTGAGE BACKED SECURITIES Total		2,235,488.29		1,966,456.53	2.3	121,327.19	6.2

CORPORATE BONDS

UTILITY BONDS

1,000,000	Georgia Power 5.125% Due 11-15-12	97.28	972,810.00	99.99	999,910.00	1.1	51,250.00	5.1
142,000	Duke Energy Corp. 5.300% Due 10-01-15	101.07	143,515.10	96.46	136,977.46	0.2	7,526.00	5.5
300,000	Natl Rural Utilities 7.200% Due 10-01-15	119.23	357,705.00	104.08	312,249.30	0.4	21,600.00	6.9
140,000	Carolina Power & Light 5.250% Due 12-15-15	100.44	140,616.00	96.48	135,069.20	0.2	7,350.00	5.4
110,000	SBC Comm Inc. 5.625% Due 06-15-16	101.37	111,508.10	92.61	101,872.10	0.1	6,187.50	6.1
500,000	South Carolina E&G 5.300% Due 05-15-33	105.04	525,222.50	79.21	396,051.00	0.5	26,500.00	6.7
500,000	Comcast Corp. 6.450% Due 03-15-37 Accrued Interest	101.42	507,095.00	80.66	403,281.50	0.5	32,250.00	8.0
					48,930.53	0.1		
			2,758,471.70		2,534,341.09	2.9	152,663.50	6.1

FINANCIAL BONDS

140,000	Gen. Elec. Cap. Corp. 4.875% Due 10-21-10	102.21	143,089.80	96.81	135,538.06	0.2	6,825.00	5.0
500,000	National City Bank 6.250% Due 03-15-11	100.00	500,000.00	58.01	290,028.00	0.3	31,250.00	10.8

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
500,000	HSBC Finance 6.375% Due 11-15-12	115.58	577,912.50	96.24	481,191.00	0.6	31,875.00	6.6
500,000	Progressive Corp. 7.000% Due 10-01-13	94.84	474,220.00	105.27	526,340.00	0.6	35,000.00	6.6
1,000,000	Principal Life Inc. FDG 5.100% Due 04-15-14	96.71	967,130.00	97.04	970,353.00	1.1	51,000.00	5.3
700,000	JP Morgan 5.700% Due 11-15-14	98.58	690,032.00	93.49	654,421.60	0.8	39,900.00	6.1
110,000	Gen. Elec. Cap. Corp. 5.400% Due 02-15-17	101.59	111,750.10	87.88	96,668.88	0.1	5,940.00	6.1
500,000	Hartford Financial 5.375% Due 03-15-17	97.04	485,225.00	85.84	429,217.50	0.5	26,875.00	6.3
500,000	Lehman Bros. Holdings 6.500% Due 07-19-17	98.70	493,480.00	0.12	625.00	0.0	32,500.00	5,200.0
	Accrued Interest				79,219.37	0.1		
			4,442,839.40		3,663,602.41	4.2	261,165.00	7.3
INDUSTRIAL BONDS								
500,000	Whitman Corp 6.375% Due 05-01-09	112.74	563,715.00	100.55	502,765.50	0.6	31,875.00	6.3
142,000	United Technologies 4.375% Due 05-01-10	100.76	143,076.40	101.69	144,394.40	0.2	6,212.50	4.3
500,000	Avon Products 5.125% Due 01-15-11	97.96	489,820.00	99.81	499,064.50	0.6	25,625.00	5.1
60,000	IBM Corp. 4.950% Due 03-22-11	101.89	61,134.00	102.57	61,543.80	0.1	2,970.00	4.8
375,000	Estee Lauder Cos Inc. 6.000% Due 01-15-12	110.31	413,658.75	104.82	393,085.87	0.5	22,500.00	5.7
140,000	Pepsico Inc. 5.150% Due 05-15-12	103.96	145,539.80	103.31	144,629.52	0.2	7,210.00	5.0
142,000	GE Company 5.000% Due 02-01-13	101.48	144,108.70	92.10	130,784.41	0.2	7,100.00	5.4
500,000	Wal-Mart Stores 7.250% Due 06-01-13	105.58	527,925.00	110.58	552,923.50	0.6	36,250.00	6.6
100,000	Schering-Plough 5.300% Due 12-01-13	101.31	101,313.00	96.70	96,703.70	0.1	5,300.00	5.5
500,000	Deere & Company 6.950% Due 04-25-14	107.33	536,670.00	104.46	522,298.50	0.6	34,750.00	6.7
645,000	Cisco Systems 5.500% Due 02-22-16	98.29	633,966.00	96.09	619,795.33	0.7	35,475.00	5.7

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
134,000	Abbott Labs 5.875% Due 05-15-16	104.44	139,944.20	99.76	133,676.79	0.2	7,872.50	5.9
500,000	Anheuser Busch 5.050% Due 10-15-16	100.18	500,918.63	86.61	433,059.00	0.5	25,250.00	5.8
300,000	Costco Companies 5.500% Due 03-15-17	101.60	304,794.00	99.13	297,395.70	0.3	16,500.00	5.5
450,000	Coca-Cola Enterprises 7.125% Due 08-01-17	118.68	534,051.00	107.54	483,933.60	0.6	32,062.50	6.6
1,000,000	J.C. Penney 5.750% Due 02-15-18	96.74	967,400.00	84.01	840,120.00	1.0	57,500.00	6.8
550,000	Kerr-McGee Corp 6.950% Due 07-01-24	104.28	573,556.50	94.53	519,912.25	0.6	38,225.00	7.4
500,000	IBM Corp. 7.000% Due 10-30-25	112.65	563,240.00	104.79	523,938.50	0.6	35,000.00	6.7
323,000	Procter & Gamble 5.550% Due 03-05-37	100.28	323,901.20	92.99	300,369.00	0.3	17,926.50	6.0
	Accrued Interest				115,097.46	0.1		
			7,668,732.18		7,315,491.35	8.4	445,604.00	6.2
	CORPORATE BONDS Total		14,870,043.28		13,513,434.86	15.5	859,432.50	6.5
CASH & EQUIVALENTS								
	Dividend Accrual		102,143.85		102,143.85	0.1	0.00	0.0
	Inventor MMF		1,065,187.74		1,065,187.74	1.2	33,020.82	3.1
	Investor MMF		0.00		0.00	0.0	0.00	3.1
	MMF Interest Accrual		4,761.45		4,761.45	0.0	166.65	3.5
	CASH & EQUIVALENTS Total		1,172,093.04		1,172,093.04	1.3	33,187.47	2.8
TOTAL PORTFOLIO			89,014,548.08		86,956,593.24	100.0	2,214,349.14	2.6

What We've Learned from a Painful Nine Months

As investors brace for the 4th quarter, here are some lessons from the unexpected twists and turns.

By Leslie Scism, Wall Street Journal

Three months to go: Could they be any more tumultuous than the nine months just finished? That's the big question as mutual-fund investors mark off another quarter in a year that has seen even the safest investing havens at times prove to be very scary places.

As the bear market of 2000-02 was unfolding, it was easy enough to find ground zero: funds heavy with go-go technology stocks. This time around, it's harder to isolate the danger.

Even some short-term-bond funds billed as safe alternatives to money-market funds have tanked with exposure to defaulting mortgages. Money-market funds themselves have been in the headlines for soured investments.

What's more, dividend-focused stock funds that supposedly have less to lose in bad times than funds with aggressive holdings have stung their investors. (See related story below.) And foreign funds that investors hoped would provide diversification have lost even more than U.S. ones.

For the third quarter, the average diversified mutual fund holding U.S. stocks lost 10.3%, bringing the year-to-date loss to 19.7%, according to preliminary figures from Lipper Inc. That was far worse than the 3.7% quarterly decline in the Dow Jones Industrial Average and also behind the 8.4% negative return of the Standard & Poor's 500-stock index, hit hard by financial-sector woes. The two indexes are down 16.6% and 19.3% year to date, respectively. (All figures include reinvested dividends.)

Experienced investors know they have endured worse; the tech-stock collapse led to declines of more than 10% in the average fund in four separate quarters, including one nearly 17% fall. Still, investors are in uncharted waters: Financial-rescue plans coming out of Washington will determine in large part what happens now.

With 2008 entering its final stretch, we decided to take a look at some of this year's many twists and turns, trying to find lessons to be learned to help investors as they brace for the fourth quarter. Here is what we found.

REACHING FOR YIELD CAN BE PERILOUS

With money-market funds sporting paltry yields in recent years, investors flocked to "ultrashort" bond funds. In general, the perception was that these funds were "a safe haven, cash-substitute investment," says Arijit Dutta, associate director of

at fund tracker Morningstar Inc. Between 1999 and 2007, the category swelled to 49 funds from 37, totaling about \$50 billion at the peak, according to Morningstar.

Then, a handful of these funds stunned investors, plunging by double-digit amounts for the nine months through March 31 of this year. The average fund in the group dropped 1.65% from mid 2007 to March 31, while the average taxable money-market fund gained roughly 3%, according to Morningstar.

What is particularly frustrating here is that there were so few warning signs. Indeed, one hard-hit fund, Fidelity Ultra-Short Bond, was a Morningstar recommendation, praised for its broad diversification and high-quality holdings. Its returns were solid — in the category's top quartile in 2005 and 2006 — but didn't suggest aggressive bets. The fund is down nearly 11% over the past 12 months; for the year's first nine months, it is down 7.1%, about eight percentage points worse than its benchmark index.

In an effort to improve matters, Fidelity assigned the fund to a veteran manager with experience managing short-duration accounts. To reduce volatility, this manager has lowered the fund's stake in asset-backed securities and other types of securitized bonds, and he has beefed up cash holdings, a Fidelity spokesman says.

This summer, Morningstar sought to figure out why its standard risk measurements hadn't picked up on the danger lurking within this and several other bond funds. The conclusion: The complex subprime-mortgage securities these funds held, which carried high bond ratings, were too new to have shown problematic tendencies in the "benign" period before subprime defaults escalated, says Mr. Dutta.

In retrospect, he says, there was one missed clue — the most problematic securities generally traded infrequently. As the credit crisis grew, they became even more illiquid, worsening the price declines. Morningstar's analysts are now trying to get a better handle on "liquidity risk" as they assess funds, he says.

The upshot: If you move money into a bond fund because its yield is higher than your money-market fund or a certificate of deposit, know that risk comes with it, no matter how safe it appears.

Small investors have voted with their wallets, fleeing not just the few hard-hit ultrashort-bond funds but others as well, worsening many funds' returns as



managers were forced to sell bonds to raise cash. The ultrashort-bond category held less than \$20 billion as of mid-summer.

CHOOSE MONEY-MARKET FUNDS CAREFULLY

Money-market mutual funds are different from bond funds in a key regard: The Securities and Exchange Commission sets rules on what they can buy, known as the “quality, maturity and diversity standards,” says Peter Crane, president of Crane Data LLC, Westboro, Mass., which tracks money-market activity. As a result, money-market funds own a very wide range of highly rated securities that generally mature in 90 days or less. But that doesn’t mean they can’t lose money — as investors in the Reserve Primary Fund learned last month.

The big fund, popular with institutional investors, “broke the buck,” meaning losses dragged its net asset value below the \$1-a-share mark that is standard for these funds. It declined to 97 cents, hit with losses from debt securities of Lehman Brothers Holdings, the Wall Street firm that filed for bankruptcy last month.

There are several steps you can take to avoid being in a money-market fund that one day makes the headlines. First, you can check to see if your fund has signed up to participate in the U.S. Treasury’s new temporary guaranty program; the effort is limited to money that was invested in money-market mutual funds as of the close of business Sept. 19. It initially is in place for just three months.

For those willing to do homework, many fund firms post lists of holdings on their Web sites. Some are specifying exposure to troubled companies in the news. But beware: Holdings change, so the list you look at before you invest might be quite different months down the road. Also, what do you look for? As 2008 opened, who would have thought that insurance powerhouse American International Group Inc. would need a life-saving \$85 billion government infusion?

One possible approach: Invest in a big fund at a well-established fund firm. The larger and more established the firm, the more likely it is to step in and bail out a fund if something goes wrong, to prevent devastating runs of panicked investors and a huge hit to its reputation. The Reserve fund’s parent, Reserve Management Co., long has offered some of the nation’s oldest and largest money-market funds, but it is small compared with big players that in recent months have bought troubled securities out of their funds or taken other steps to make their funds whole, including Bank of America Corp., Legg Mason Inc. and Northern Trust Corp.

Though small investors may have access to an institutional money-market fund in a 401(k) or brokerage sweep account, most are probably better off in “retail” funds, analysts say. Funds that cater to hedge funds and other big accounts may be subject to money moving in and out as these investors chase slight yield advantages. What’s more, fund firms may be more willing to protect small investors from losses than sophisticated clients in institutional funds.

A fund’s yield can reveal potential problems. The Reserve Primary

Fund’s 12-month yield as of Aug. 31 was 4.04%, the highest of more than 2,100 money-market funds tracked by Morningstar — while the average was 2.75%. If your fund is yielding more than others in its category and charges a similar expense ratio, you can assume it is taking on more risk to deliver the added reward.

This raises another point: The funds with the lowest costs have the least need to take on risk to deliver a competitive yield; an annual expense ratio is a hurdle a manager has to clear before you get any return at all. Ratios in money funds tracked by Morningstar range from no current charge to 2.25% of assets.

“In all, your best bet is to stick with low-cost money-market funds that don’t need to stretch for yield,” run by “large reputable shops that have the resources to fulfill their promises,” Morningstar analyst Karen Dolan sums up in a recent report.

DIVERSIFICATION CARRIES ITS OWN SET OF RISKS

Many investors who experienced the bursting of the tech-stock bubble remember that “value” stocks were poised to take off when the S&P 500 index swooned, says Christine Benz, who directs Morningstar’s personal-finance research. These are shares deemed cheap on the basis of, say, the ratio of stock price to earnings per share. They’re often seemingly dowdy, dividend-paying companies, and during the tech-stock boom they were shunned as investors favored shares of companies with fast-growing profits.

Many investors came away from that experience with the belief that value stocks are safer than “growth” counterparts, says Ms. Benz. That value stocks would hold up better “makes intuitive sense, too,” she says. “After all, most market downturns involve a purging of previous excesses,” and because value stocks are usually defined as those trading at prices below what value managers judge they are worth, they wouldn’t have as far to fall as growth stocks.

But many value funds haven’t been so rewarding this time around. The main culprit: the deteriorating financial sector. Long a steady source of dividends, banks and mortgage businesses have been hammered by mounting defaults.

Similarly, international-stock funds have disappointed. They can help diversify results over time, but here’s the rub: U.S. and overseas markets tend to move together during severe downturns as gloom spreads around the globe. For the year’s first nine months, most overseas stock-fund categories fell much further than U.S. ones, many off nearly 30%, according to Lipper. The average emerging-markets fund was down 37%.

Ronald Florance, director of asset allocation and strategy for Wells Fargo & Co.’s Wells Fargo Private Bank, says that value and international stocks remain key elements of diversification, but investors need to know their risks. People often don’t appreciate how [investment] styles can have large sector exposures,” he says. As for this year’s international declines, “that’s just one more reminder of why you don’t place all your eggs in one basket,” he says, as some were tempted to do when foreign markets were outpacing U.S. ones

in recent years.

"If your long-term asset-allocation strategy addresses all of your financial goals, you shouldn't let this year derail" the approach, he adds. Instead, this year is a reminder of why it's wise to be well-diversified.

WHAT GOES UP TOO FAR EVENTUALLY DOES COME DOWN

Just one more word: potash.

A fertilizer ingredient that has been in short supply, potash is a low-profile but important piece of the big commodities rally that lured in many small investors during the year's first half. In fact, some of the most impressive returns during the year's first half came from Potash Corp. of Saskatchewan, Mosaic Co. and other stocks of fertilizer producers, says Morningstar analyst David Kathman.

In early July, Mr. Kathman screened for the 10 mutual funds with the most-concentrated fertilizer bets. The funds he identified had 8.8% to 25.2% of their money in the sector. Some specialize in basic-materials stocks: Fidelity Select Chemicals, ICON Materials and Rydex Basic Materials. But one of the biggest concentrations — nearly 11% — was at CGM Focus. CGM Focus was in the top 1% of Morningstar's "large blend" category for the 12 months through June 30, with a 71% total return.

Then, in one of the most predictable things that happened this past quarter, because what goes up far too fast almost always comes down hard and fast, commodities prices dived. CGM Focus slid 29% in the third quarter, falling into the bottom 100th percentile of its peers.

"All too often, investors buy whatever has been hot and shun whatever has not, and they frequently do so at just the wrong time," Mr. Kathman writes at Morningstar.com. At CGM Focus, new shareholders can take some comfort that the fund has an excellent long-term record — it is in the top 1% of its category for the past three years, five years and 10 years — and Morningstar considers its skipper, Kenneth Heebner, one of the most experienced in the industry.

"A key part of investing well over the long term is learning how not to get swept up in the emotions that short-term gains or losses tend to bring out, and how to keep an eye on the bigger picture," Mr. Kathman concludes.

Eleanor Laise and Jennifer Levitz contributed to this article.

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